

Comments of

IUCN-US, National Wildlife Federation Natural Resources Defense Council, World Wildlife Fund

On Country Selection Criteria and Environmental Review Procedures of The Millennium Challenge Corporation

Introduction

The Millennium Challenge Corporation (MCC) is seeking public comment on the criteria by which it determines which countries are eligible for assistance under the Millennium Challenge Account (MCA).¹ As part of its Economic Freedom criterion, the MCC has expressed a specific interest in developing a set of natural resource management criteria.

The following comments identify some of the existing natural resource management indices; propose a partial list of environmental indicators for consideration; and stress the need to develop permanent and interim environmental review processes to screen potential country compacts.

We propose that the MCC consider existing and potential indicators such as those outlined below; rank them against the statutory requirements; circulate the results to relevant stakeholders; and develop an index of indicators that would allow the MCC to rate a country's accomplishments and commitments in terms of sound natural resource management.

These comments constitute an initial effort to support this process. We welcome the opportunity to participate fully in the working group that the MCC will establish, to be led by Governor Whitman, in order to advance more detailed comments and proposals.

Developing Natural Resource Management Criteria

There are a variety of natural resource management indicators available, many of which meet the seven requirements set out by the MCC in section 608 of the Act. The following sections outline some existing attempts at developing such indicators, as well as a tentative list of criteria that were discussed by the parties to this comment.

These initial suggestions are necessarily incomplete and imperfect, and we do not advocate any of them at this point. However, we believe they are worthy of consideration by the MCC in the process of developing its own set of criteria.

Existing Indices

In this section, we outline several examples of existing environmental indices to give an idea of previous work in the field. We urge the working group to conduct or commission a more thorough review of relevant work as a preliminary step.

World Resources and *World Development Indicators* are compendia of widely reported and officially vetted data collected by UN offices and governments and published regularly by the

¹ As directed by Congress in the Millennium Challenge Act of 2003 (22 U.S. C.A. 7701, 7707(b), Section 608, the proposed criteria were published in the Federal Register on August 31, 2004 (69 Fed. Reg. 53090).

World Resources Institute (along with the World Bank, UNEP and UNDP) and the World Bank, respectively.

The Natural Resource components of the World Bank's natural and human capital management rating, "Adjusted Net Savings," are published in *WDI*². These indicators include energy depletion, mineral depletion, net forest depletion, and carbon dioxide damage. They were selected by the Bank because they are among the strongest indicators in terms of reliability, availability, and consistency of application.

Another possible source of information might be the *Environmental Performance Measurement, 2001-2*, published by Yale and Columbia Universities and the World Economic Forum, which includes an Environmental Sustainability Index for 122 countries and a regulatory ranking for 71, composed of many different factors. The book includes a chart (Figure 7) of the relationship between the strength of a country's Environmental Regulatory Regime and its competitiveness showing that the quality of a country's environmental regime "correlates strongly and positively with its competitiveness."³

Another set of sustainability and ecosystem ratings was sponsored by the International Union for the Conservation of Nature and developed by Robert Prescott Allen in *The Well Being of Nations*, which ranked 180 countries by ecosystem well-being.⁴

Possible Indicators

The following list of examples was discussed by the parties to this comment. They are not complete, and discussion of how to better define, measure, and monitor them will be important. However, they represent a useful starting point for discussion by the working group.

- Progress in meeting Millennium Development Environmental Goals (CO² emissions per capita, percentage of population with access to an adequate amount of water from an improved source, and access to improved sanitation facilities)
- Development of environmental components (including side agreements) for international trade treaties
- Government involvement in promoting market-based as well as regulatory instruments of environmental responsibility
- Government support for international/multilateral standard-setting/certification organizations
- Development of a national plan for sustainable development; extent of implementation; degree to which environmental issues are present in national PRSPs (Poverty Reduction Strategy Papers)
- Establishment of criteria for designating protected areas and evaluating degree to which they focus on key biodiversity targets; demonstrated commitment to managing protected areas
- Establishment of a functioning EIA process which includes public participation, transparency, and disclosure as a matter of course
- Use of Annual Management Reports (such as Toxic Release Inventory (TRI) and Pollutant release and transfer registers (PRTRs))

² Understanding Savings, Environment, WDI, 2002, 3.15, pp.

³ *Environmental Performance Measurement, 2001-2*. p. 40.

⁴ Island Press, 2002.

We look forward to working closely with the working group and other stakeholders to consider these and other appropriate criteria in the process of developing an environmental index for MCC country selection.

Screening Out Projects That Are Likely to Cause Significant Environmental Hazards

Section 605(e)(3) of the Act prohibits the MCC from providing assistance for “any project that is likely to cause a significant environmental, health or safety hazard.” Therefore, the MCC should develop an objective, transparent, and consultative review process for making this determination and for ensuring a reasonable degree of country control over environmental and health risks related to projects funded by the MCC.

The MCC should ask its working group on environmental criteria for assistance in determining how to develop such a process or whether to adopt one developed by others. In making this determination, it should also consult with relevant federal agencies like the CEQ, EPA, USAID, and Interior and Commerce departments, as well as international and professional authorities like the International Commission on Impact Assessment.

Pending the establishment of its own process, the MCC needs to develop an interim set of procedures for evaluating proposed country compacts. At this point, we recommend that the MCC use an established and well-understood environmental review (ER) process. Having the regulatory capacity to undertake these reviews is an integral part of sustainable economic growth for a given country.

The MCC should include environmental and public health experts at relevant federal agencies and other interested parties in the process of reviewing any proposal that MCC believes is likely to be considered for assistance. MCC should complement that with a public notice, publishing its draft assistance proposals for comment in the Federal Register and on its website. MCC should defer to any reasonably supported reservations or objections, pending the establishment of its own procedures.

For recipient countries without the capacity to perform a proper environmental assessment, or to eliminate or mitigate adverse impacts, the compact should include resources for proper implementation of the agreement through institutional capacity building to improve natural resource management, environmental quality and the protection of biological diversity.

Conclusion

We welcome the openness of the MCC to public input in developing selection criteria for the MCA. In particular, we welcome the decision to develop specific criteria that evaluate natural resource management. Environmental degradation exacerbates poverty and negatively impacts human health. Inadequate attention to the environment hampers countries from developing sustainably and can inhibit growth. Including a criterion for country performance in this area will encourage governments to better manage their natural resources.

This brief comment has sought to survey some of the existing environmental indices; to list potential indicators that could be further considered by the working group; and to stress the importance of developing an environmental review process for screening country compacts.

Given the complexity of these issues, we agree that it is important to convene a wide-ranging consultative process that draws on the knowledge and experience of NGOs, academics, and other stakeholders in order to develop a realistic yet rigorous index. We look forward to participating in this process, and in the working group that you will create.